

July 3, 2001

MAINE PUBLIC SERVICE COMPANY
Request for Approval of Reorganization
Approvals and Exemptions and For Affiliated
Interest Transaction Approvals

AMENDED ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

In an Order dated September 2, 1998, we granted Maine Public Service Company's (MPS or the Company) request for reorganization along with certain approval exemptions, and the approval of certain affiliated interest transactions related to the formation of a wholly-owned energy marketing affiliate, Energy Atlantic LLC (EA), subject to certain conditions. Our approval included an investment limitation for MPS of \$2.0 million in EA. On September 11, 2000, MPS requested that we amend our original Order to increase the permitted investment level to \$2.5 million, with all other provisions of our original Order remaining unchanged. On September 19, 2000, we asked for comment from the Public Advocate (OPA), the only active party in the original proceeding, and the OPA did not oppose MPS's request. This Amended Order approves the Company's request.

II. BACKGROUND & DECISION

Our original Order in this Docket established a total investment limit of \$2.0 million for MPS in its energy marketing affiliate, EA. Paragraph 5(A) of Chapter 820 of the Commission's rules regarding utility investments in non-core ventures states that a utility with an investment grade bond rating from Standard & Poors (S&P), Moody's, Duff & Phelps (DCR) or Fitch Investors Service (DCR & Fitch have recently merged) is permitted to invest in non-core ventures up to certain limits¹, without prior Commission approval. MPS, due to its relatively small size and the high cost of obtaining a bond rating, was not (and is not currently) rated by any bond-rating agency. In such a case, the Commission must determine whether MPS or any similarly situated utility is in a sufficiently healthy financial state to allow an investment.

At the time of our original Order, we found that MPS's financial condition was "borderline," however, we approved the request with several specific conditions designed to protect ratepayers from potential adverse outcomes resulting from the creation of EA (Order at pp.4-8). MPS's current petition states that, due to higher than anticipated sales growth at EA, it is desirable to have additional working capital available at this time. Fast growing firms in any industry often require additional working

¹ The stated limit is 5% of total consolidated capitalization. At December 31, 2000, MPS's total capitalization was \$80.48 million indicating a permitted investment limit of \$4.02 million if this standard is applied.

capital to fund growth in current assets such as accounts receivable or inventory, and therefore, we do not consider MPS's request unusual. It is noteworthy that EA has been able to obtain a \$600,000 revolving line of credit from Fleet Bank without a parental guarantee from MPS, which suggests that EA has at least some level of stand-alone financial viability today. These types of credit facilities are typically used to satisfy growth-related working capital needs and MPS anticipates that the additional \$500,000 that it is requesting will be a "safety net" in the event that growth continues at EA. MPS states that it does not expect to be making cash infusions to EA in the near future.

While it is encouraging that EA has achieved a degree of stand-alone viability since we originally approved MPS's investment in the venture, our primary concern has always been MPS's financial integrity and the potential for negative impacts on the utility in the event that EA ultimately failed. In its September 2000 filing and a later filing dated June 13, 2001, MPS provided calculations showing the financial impacts of a total write-off of a \$2.5 million investment in EA. This was similar to a calculation the Company provided in the original petition in 1998, when MPS requested a \$2.0 million investment limit. The current calculation shows that a \$2.5 million write-off of EA will not cause MPS to violate loan covenants regarding its common equity ratio, common equity balance or pre-tax interest coverage. In fact, due to improvements in MPS's own financial condition since 1998, the potential impact of a \$2.5 million write-off during calendar year 2001 would have a lesser impact on the Company's covenant ratios than a \$2.0 million write-off would have had on the same ratios in 1998 or 1999. While the business and financial risks involved in a venture like EA are higher than those MPS faces in operating its utility business, we are satisfied that the provisions of our original approval in this Docket designed to give us the ability to protect MPS ratepayers from adverse outcomes at EA will not be diminished by raising MPS's investment limit from \$2.0 million to \$2.5 million.

Accordingly, we

ORDER

1. That the \$2 million investment limit specified in paragraph 2 of our September 2, 1998 Order in this Docket be increased to \$2.5 million.
2. That all other provisions and conditions specified in our September 2, 1998 Order in this Docket remain unchanged.

Dated at Augusta, Maine, this 3rd day of July, 2001.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.